

**REPORT OF THE AUDIT OF THE
FORMER KNOTT COUNTY
SHERIFF'S SETTLEMENT -
2008 UNMINED COAL TAXES**

**For The Period
August 12, 2008 Through June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER KNOTT COUNTY SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES

**For The Period
August 12, 2008 Through June 30, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Unmined Coal Taxes for the former Knott County Sheriff for the period August 12, 2008 through June 30, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,901,512 for the districts for 2008 unmined coal taxes, retaining commissions of \$77,861 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$1,823,651 to the districts for 2008 unmined coal taxes.

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Randy Thompson, Knott County Judge/Executive

Honorable Ray E. Bolen, Former Knott County Sheriff

Honorable Dale Richardson, Knott County Sheriff

Members of the Knott County Fiscal Court

Independent Auditor's Report

We have audited the former Knott County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period August 12, 2008 through June 30, 2009. This tax settlement is the responsibility of the former Knott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Knott County Sheriff's unmined coal taxes charged, credited, and paid for the period August 12, 2008 through June 30, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 4, 2009, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,



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Jonathan Miller, Secretary

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and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen

Auditor of Public Accounts

September 4, 2009

KNOTT COUNTY
RAY E. BOLEN, FORMER SHERIFF
SHERIFF'S SETTLEMENT -
2008 UNMINED COAL TAXES

For The Period August 12, 2008 Through June 30, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal 2008 Property Tax	\$ 226,422	\$ 174,275	\$ 1,177,395	\$ 306,928
Additional Billings: 2003 Unmined Coal	4,724	3,231	16,308	5,463
Additional Billings: 2004 Unmined Coal	389	243	1,456	443
Additional Billings: 2005 Unmined Coal	6,913	5,524	25,139	9,148
Additional Billings: 2006 Unmined Coal	105	72	377	134
Penalties	1,657	1,453	8,289	2,239
Gross Chargeable to Sheriff	240,210	184,798	1,228,964	324,355
<u>Credits</u>				
Exonerations	236	160	1,113	307
Discounts	4,095	3,114	20,990	5,530
Uncollected - Turned Over To New Sheriff	4,884	3,714	25,396	6,620
Delinquents:				
Unmined Coal - 2003 Taxes	37	21	127	43
Unmined Coal - 2005 Taxes	64	44	234	86
Total Credits	9,316	7,053	47,860	12,586
Taxes Collected	230,894	177,745	1,181,104	311,769
Less: Commissions *	9,813	7,554	47,244	13,250
Taxes Due	221,081	170,191	1,133,860	298,519
Taxes Paid	221,081	170,191	1,133,860	298,519
Due Sheriff				
as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on	\$	720,408
4% on	\$	1,181,104

The accompanying notes are an integral part of this financial statement.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Knott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Knott County Sheriff did not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Unmined Coal Taxes

The Unmined coal tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was August 12, 2008 through June 30, 2009.

Note 4. Interest Income

The former Knott County Sheriff earned \$591 as interest income on 2008 unmined coal taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Knott County Sheriff collected \$14,715 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 6. Advertising Costs And Fees

The former Knott County Sheriff collected \$85 of advertising costs and \$297 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the former Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Randy Thompson, Knott County Judge/Executive
Honorable Ray E. Bolen, Former Knott County Sheriff
Honorable Dale Richardson, Knott County Sheriff
Members of the Knott County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Knott County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period August 12, 2008 through June 30, 2009, and have issued our report thereon dated September 4, 2009. The former Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Knott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Knott County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Knott County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period August 12, 2008 through June 30, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the former Knott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

September 4, 2009

